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Indies in Squeeze as Majors' Profits Soar
Why Two Jobbers Use Energy Futures
Borenkind: Merged Suppliers' Obligations

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THE LONG ROAD TO RECOVERY

Phillips Pins Future On New Strategies To Rebuild Image

NATIONAL PETROLEUM NEWS

JUNE 1984 VOL. 76 NO. 6

24 Regional News

24 East Coast
Oil mergers and financial woes fraying marketers' nerves

25 Midwest
Full-service at self-serve prices; Mo. jobber onto something

27 South
Texas suppliers' direct-ops threaten jobbers, many argue

28 West Coast
California eyes shortage plan reminiscent of 1970s controls

29 Rockies
Alcohol blends' fate clouded amid Utah's tax shifts

33 General News

33 Marketers losing indie suppliers; some switch to majors' flags

34 Charter's Chapter 11 squeeze typifies others' struggles

35 Majors' first-quarter earnings supported by downstream

35 Indie marketers trimming down, SIGMA study says

36 Shell, Mobil jobbers could reap $77-million in overcharge refunds

38 Powerine carries on, despite war among banker/owners

38 Most majors market some alcohol fuels, study shows

40 Amoco, Shell repeat one-two market share finish in '83

40 Minnesota outlaws C-store conversions; others to follow?

42 Features

42 Cover report
Phillips pins future on new strategies to rebuild image
• Exclusive interview with Chairman William C. Douce

53 Operations & Equipment
Majors pushing car washes as powerful merchandising tool

56 Management
Why two jobbers use energy futures

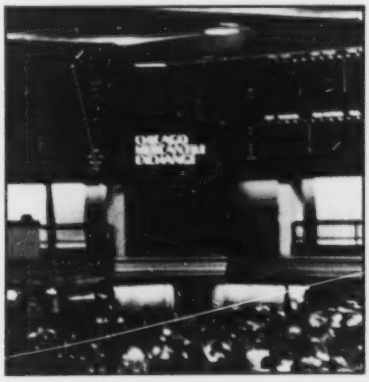
79 Legal—Sam Borenkind
Mergers and your franchise agreement

80 Tax—Irving Blackman
You can transfer your business tax-free

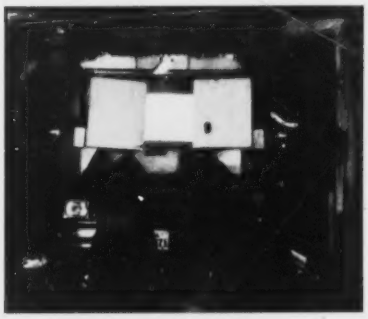
Departments

81 About Oil People
15 Ahead of the News
68 C-Store Briefs
17 Catching Up
84 Classified
11 Coming Meetings
16 Late News
9 Letters & Comment
5 Looking Things Over
18 Marketplace
82 News Notes
63 O&E Briefs
66 TBA Briefs
18 Trends

For the first time in 20 years, Phillips Petroleum depicted one of its gasoline stations on the cover of its annual report. Meaning: In a substantial effort to improve a sagging retail image, 'the jobber company' has launched several wholesale and retail programs that are bound to raise a few eyebrows. **Page 42**
Cover art by Marcus Design, Chicago



Two case studies show the variety of ways jobbers tap energy futures in their operations today. One East Coast jobber has built a stable record on hedging fuel oil futures, while a West Coaster has begun adapting eastern futures for his own western operation. **Page 56**



In addition to meeting the lowest pump price in big towns, many majors' units today are rediscovering car washes as a means of luring customers . . . and it seems to be working. **Page 53**

• TRENDS

'Competition is Good . . . At Any Cost,' Fed Saying

Nobody has to tell marketers that competition has intensified since 1981. Nor is it difficult to determine why that's so. Supplies are more than enough to meet demand, and federal price and allocation controls are gone.

But the burning question for the past couple of years has been whether all this competition is "fair." More to the point: Is it reasonable to expect the small business segment of the market to compete with some of the largest corporations in the world?

The answer from the federal government (or at least the executive branch) is a resounding "yes." Recent developments in Washington underscore that impression.

The Federal Trade Commission, for example, has given tentative approval to two of the largest corporate mergers in the nation's history. (Early last month, a final decision on the Texaco/Getty Oil merger was imminent, and the FTC gave preliminary approval to the Socal/Gulf deal at the end of April. [See story on page 16.] In both cases, the commission won significant concessions from the merging companies, including divestitures, on an unprecedented scale. But in both instances, the commission paid little attention to the impact of the mergers (or the divestitures) on small business marketers.

But the FTC is not the only federal agency taking a "free-and-fierce-enterprise" position these days.

A draft report released by the Energy Department (DOE) in April makes it clear that the current definition of competition makes few, if any distinctions between large companies or small ones. If most of the casualties of competition are smaller companies, it's because the market works that way, the agency says. By definition, competition is good, even if it takes a multi-billion-dollar company to compete effectively.

A quote from the DOE report illustrates the point: "The ability to remain cost-competitive (has) required changes in jobber operations. Jobbers (have) remained competitive by extensive efforts at cost reduction, including increased volume through internal growth or through mergers and consolidations. Further jobber effectiveness depends upon the ability to continue cost reduction efforts to maintain cost advantages over their suppliers."

In other words, the rules of the marketplace (low-margin, high-volume) have been laid down by the major integrated companies. The jobbers who survive will be those who can outplay the majors on their home field.

The DOE report, titled "Deregulated Gasoline Marketing: Consequences for Competition, Competitors and Consumers," is based partly on case studies and market data developed during the controversial "Title III Study," which attempted to discover whether the 15 largest oil companies were subsidizing their marketing operations (and concluded they were not). The rest of the work is an analysis of market data from the post-decontrol period.

The report concludes from the case studies that comparison of street prices on a given day is not sufficient to build a case for predatory pricing. Complex multiproduct pricing, as well as competitive and volume rebates make this misleading, DOE says.

In addition, each company has its own marketing strategies, based on different views of what the future holds, the report notes. "This is precisely what we should expect in a competitive market, with winners being rewarded and losers being punished if the competitive process is to be effective."

Information from the marketplace since decontrol indicates that by DOE's definition, competition is working well. Absent their "government granted advantages," jobbers began losing market share near the end of 1982 and have continued to lose ground since. From 1973 to 1982, jobber market share rose from 36% to 52%. Since then, the share has been dropping slowly (the report doesn't say by how much). Direct-supplied dealers lost market share between 1973 and 1982 but now are gaining again.

The trend that's emerging is a change in the way DOE, the FTC and certainly the White House view competition. The view that's prevailing is that inter-brand competition is what's important. So long as the major refiner-suppliers compete with one another and with larger independents, the market is working fine. Little or no attention will be paid to the fate of competition among the various classes of distribution (jobbers, lessee dealers, open dealers, etc.). Refiner's are free to decide which markets they will serve, how they will serve them and at what price. Those who want their suppliers to behave differently won't get much help from the executive branch.

—Thomas Goldsmith

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

MARCH	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.194	$1.125	$1.210	$1.362
Regions:				
Northeast	1.214	1.146	1.215	1.369
North Central	1.213	1.159	1.236	1.415
South	1.175	1.100	1.188	1.337
West	1.176	1.098	1.198	1.361

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	4/27/84	4/29/83
Gasoline (total)	250,486	224,804
Gasoline (unleaded)*	107,153	92,169
Jet Kerosine	34,186	35,956
Distillates	101,420	107,797
Residual	45,438	43,720

**Included in gasoline total.*
Source: American Petroleum Institute.

Majors' 1st-Qtr. Earnings Supported by Downstream

Boosted by more profitable returns in refining and marketing, oil company earnings in first-quarter 1984 were generally brighter than they have been in a long time.

For these integrated oil companies, several positive factors came into play. Several of the top major oil company performers benefited from weather colder than the near-balmy days of the first period of 1983, meaning home heating oil sales were up dramatically. In addition, several companies—especially Exxon, Socal and Phillips—witnessed far greater natural gas volumes in this first quarter.

Overall, domestic demand for petroleum products was 4.9% higher for the 1984 period than that for 1983, according to the American Petroleum Institute.

For some, the returns sounded like the economic recovery stories on earnings coming out of the auto industry.

Standard of Indiana, for example, said its first quarter net of $594-million was the second best quarter in history, and its best first-quarter return ever. Ashland said its January-through-March profits were the best since 1981.

Exxon had a $1.5-billion first quarter, which—if maintained for the rest of the year—would give it 1984 profits in excess of $6-billion. It is doubtful, however, that Exxon or any of the others would come close to repeating the windfall decrease in crude costs witnessed in year-ago comparisons during the first quarter.

Texaco squeaked by with an increase of less than 1%. That negligible increase, however, takes into account Texaco's amortized $10.1-billion purchase price for Getty Oil last quarter and only the March portion of Getty's own $45-million earnings for that month.

Gulf, whose acquisition by Socal was given the federal go-ahead in late April, had a 21% jump in the first quarter. [See related story on page 16.]

Marathon Petroleum, which was acquired by U.S. Steel Corp. two years ago, also did well in the first quarter of 1984. U.S. Steel said the Marathon division had an after-tax operating income of $197-million compared with an operating income of $56-million in the comparable period last year. NPN

First Quarter Earnings Soar

(Add $000)

Company	1st Qtr. 1984	1st Qtr. 1983	% Change
Exxon	$1,475.0	$1,060.0	39.2%
Mobil	380.0	250.0	52.0
Texaco	321.0	319.0	0.6
Stand. (Ind.)	594.0	399.0	48.9
Stand. (Calif.)	378.0	310.0	21.9
Atlantic Rich.	395.1	330.4	19.6
Shell	326.0	246.0	32.5
Gulf	220.0	182.0	20.9
Tenneco	155.0	111.0	39.6
Stand. (Ohio)	381.0	277.0	38.0
Phillips	193.0	129.0	49.6
Sun	143.0	90.0	58.9
Getty	(a)	(a)	(a)
Union	180.1	128.3	40.0
Amer. Hess	88.4	5.0	1,668
Diamond Sham.	59.5	4.6	1,193
Ashland (b)	5.0	(14.5)	—
Kerr-McGee	40.3	23.7	70.0
Pennzoil	69.2	41.3	67.6
Murphy	26.3	27.9	(5.7)
Amer. Petrofina	—	—	—
Crown Central	(4.1)	(10.5)	—

(a) Being absorbed by Texaco and included in Texaco's 1st quarter report. (b) 2nd quarter fiscal ends 9/30. First half earnings were $32.2-million, up 119% over 1982's $14.7-million.

Indie Marketers Trimming Down: Sigma Study

Indicating that previously high-flying indies have trimmed their defiant sails since decontrol, a recent study shows that independent gasoline marketers have cut down significantly on the volumes of gasoline they have been buying from large independent refineries.

According to the latest statistical profile the Society of Independent Gasoline Marketers of America has made of its membership, the independents rely on major oil companies and large refineries for more than half of their supplies but pared their large independent refinery purchases by roughly 35% in 1983.

The profile noted that SIGMA members bought 4-billion gal. from the large independent refineries in 1982 and only 2.8-billion gal. in 1983. Jobber purchases continued to decline too, dropping to 2.2% of the total. Spot market and rack purchases moved up from 0.83-billion gal. in 1982 to 1.4-billion gal. in 1983. The majors got 40.6% of the supply business.

Here's the way the profile reported 1983's sources of supply:

Source	Percentage
Own refinery	16.1%
Jobber	2.2
Small refinery	8.7
Large indep. refinery	16.5
Major oil company	40.6
Spot market rack	8.5
Spot market bulk	6.0
Other	1.4

The switch in gasoline purchases is another indirect reflection of the problems that are plaguing refiners large and small. [See related story on page 33.]

SIGMA's latest profile was published on the eve of its spring meeting in Washington last month. Its first such profile was published in 1983 [NPN—May '83, p34].

Here are some additional highlights from the new study:

- SIGMA members sold 16-billion gal. of motor fuel in 1983, nearly 14% of the national total.
- They operate in all 50 states and the District of Columbia, and they directly own or control some 12,600 retail outlets, an increase of 2,000 over the preceding year. They also supply 5,400 additional outlets, raising their industry total to 19,000.
- Although individual company totals may vary from as little as 1-million gal. a year to as much as 500-million gal. a year, the "average" SIGMA member supplied 73-million gal. of motor fuel to 82 retail outlets in 1983.
- In keeping with the national "tightening-up" trend, SIGMA members continued to cut down on manpower needs. They averaged 4.7 employees per outlet in 1983 compared with 5.4 in 1982 and 6.3

in 1981.

C-store growth is also sweeping the independent vendors as it is the rest of the industry. The number of outlets being operated as convenience stores came close to doubling in 1983 in less than a year.

The shift to self service continued in 1983, mostly at the expense of full-service and mini-service outlets. But the growth wasn't too significant, less than 4%. Nevertheless, close to seven out of 10 Sigma outlets were fully self-service at year-end.

Sigma members estimated the value of their station sales at $18.85-billion in 1983, with $16.35-billion coming from motor fuel.

Type of station	% of total outlets 1983	1982
Motor fuel - incidentals	39.4%	48.5%
Motor fuel - C-stores	47.1	25.2
Motor fuel - car wash	.7	.9
Motor fuel - lube bays	8.6	15.6
Motor fuel - other(*)	2.3	8.3
Truck stops	1.9	1.5

(*) Autoparts, tires, donuts, etc.

Shell, Mobil Jobbers Could Get $77-Million In Overcharge Refunds

More jobbers continue to become eligible for a windfall of overcharge settlement money coming out of escrow funds held by the federal government, and the Energy Department seems to headed toward opening up proceedings so that the typically incomprehensible refund procedures can be grasped by those with a possible stake in the matters.

In late April, Shell and Mobil jobbers got hopeful news from DOE. The agency broke its $50-million settlement for petroleum product overcharges allegedly from Shell when officials reconsidered the amount to be too low. That means that within the year, even more money likely will be put into an escrow fund for Shell marketers later to share in.

(Although Shell could elect to back out of its settlement procedure with the government altogether and take the matter to court, attorneys familiar with the case say that is doubtful because the supplier would risk getting slapped with an order to give the government significantly more than the $50-million amount.)

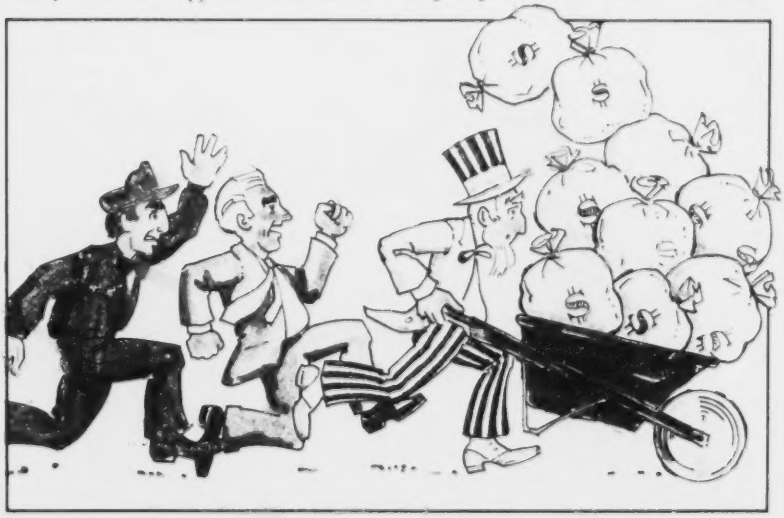
Mobil jobbers received word on Good Friday that their supplier's $27-million settlement was ordered opened for distribution to jobbers and other parties by DOE's Economic Regulatory Administration. (As $26-million of that was comprised of product, not crude, overcharge settlement money, only Mobil-branded jobbers are entitled to a share.)

ERA earlier had assessed the maximum amount Mobil could have overcharged customers during the controls period to be $17.2-million from Jan. 1, 1973 to Jan. 28, 1981. (With interest, the amount rises to $40.7-million, the agency states. But ERA later proposed a $27-million settlement.)

Meanwhile, DOE has just begun a spate of public hearings on such proposed settlements in answer to charges that heretofore, it had not adequately explained settlements to the public, said Energy Secretary Donald Hodel.

"In acting on a proposed settlement, the department will respond to significant comments and will publish in the Federal Register the rationale for any final decision," said Hodel. "I am confident that wider, more informed public participation in the settlement process will assure public confidence in the settlements."

In the words of one attorney representing jobbers in overcharge cases: "DOE wants to show Congress it is getting tough with these cases." NPN



St. Louis Independent Files for Chapter 11 After Change in Owners

Just a few short months after changing hands earlier this year, Star Service & Petroleum, a 15-state marketer based in St. Louis, has filed for Chapter 11 bankruptcy protection, joining a number of other indies that have taken a similar route since the decontrol of oil.

The action taken by the roughly 50-year-old company had caught some observers by surprise, however. Once known as Missouri's largest privately held firm—$180-million in gross sales in 1982—Star faced debts as high as $10-million when it filed its bankruptcy petition, according to court records and local sources.

Marketers say the company is known for its slick carwash gasoline outlets marketing under "Pep Gas & Wash" and selling gasoline branded "Star." The company owned 156 units in 1983, a drop from 183 stations in 1982. Five years ago, the company operated 211 outlets. The firm has withdrawn from marketing in four states over the past year or so, according to *NPN Factbook* figures.

Competitors had described the company as well-established, competitive and "one of the most financially sound firms in the area."

But others familiar with the new owner say they were not surprised at Star's difficulties. Cameron Henderson, head of the Texas jobbership that bought Star, is described as a "likeable young man," but a high-roller who is known to be slow in paying creditors and suppliers.

Neither Henderson nor attorneys handling the bankruptcy proceedings would comment on the case. But newspaper reports cite troubles which precede Henderson's involvement with the company.

The *St. Louis Post-Dispatch* cites a string of price-fixing suits against the company over the last three-and-a-half years. In 1982, Star paid $100,000 to settle a price-fixing suit brought by the Missouri attorney general and paid a $45,000 settlement in a Florida price-fixing suit the same year. In 1981, the company plead guilty to raising and fixing prices in St. Louis and was fined $25,000.

The company's top executives say it was the sale of Star that pushed it into financial trouble. When owner and co-founder George Gudder died in 1981, court documents say, all but six of the company's 1,339 shares went into probate. These six shares of stock were owned by John Henderson (no relation to the company's new owner, Cameron Henderson), Gudder's son-in-law and Star's president and CEO.

In mid-February, the company was sold by the estate's executor to the Mexia,

Texas-based marketer for $1.5-million in cash and $820,000 in promissory notes due in July, court records state. But just two weeks after the agreement, Star's checks began to bounce, other records show.

Last month, John Henderson, Gudder's heirs and two creditors filed in court to bar Cameron Henderson, his company and his family from controlling Star's funds because of alleged misappropriation and to request that another trustee be appointed by the court.

Texas marketers say Cameron Henderson is in his mid-twenties and runs a small, four-to-seven-outlet jobbership. A number of them also marveled at how such a small operator mustered the finances to buy Star, adding that they personnally conduct business with him only on a cash-up-front basis. Henderson, estimated to have been in business five or six years, has had a reputation for low wholesale prices and slow payment to suppliers.

One distributor says Henderson Oil owes his company $30,000. He adds he has presented $7,000 worth in bounced checks to the local district attorney.

"We got cold feet doing business with him," says a broker. "Like anyone else, we want to get paid."

One company, Charter International Oil—not the Jacksonville giant—filed suit against Cameron Henderson in Limestone County, Texas, district court in January for a $8,701.49 debt, but the suit was settled the next month. A suit filed April 25 by Macona Boot Co., Inc., to collect $4,000 in the same court was pending last May. NEW

Powerine Carries on Despite Bank-Owner War

Behind the Chapter 11 filing of Powerine Oil, Santa Fe Springs, Calif., is what an insider describes as "World War III" between the Rothschilds and the banks.

The once proud 44,000-b/d refinery, upgraded to the tune of $200-million or more a few years ago, has been downgraded to the role of a topping plant with a skeleton crew of 60 people.

The banks moved in when markets soured and Powerine couldn't meet the payments on the high-interest loans that financed the refinery improvements. Rothschild feelings were none too good that the banks wouldn't ease up a little and try to let the refinery make a go of it [NPN—May '84, p21].

Recently, the banks found out the Rothschilds still own the land on which the refinery stands, and, of course, the lenders wanted some of that. But the Rothschilds hadn't put their property at risk when they got the loans, and they don't intend to risk any of it now.

The Rothschilds acted as if they were ready to shut down the refinery and split the equity, if it came to that. But give up their other properties? No sir. That would have been a Chapter 7 proceeding, but Chapter 11 evidently looked better to the banks.

Powerine president Matthew F. Stewart, formerly president of Edgington Oil, another California independent refiner, who joined Powerine not long ago to run it under the new rules, doesn't speak too grimly of the prospects.

"Creditors will continue to support us financially under Chapter 11, he says. "This means the debtor in possession continues to operate the company."

How long can this go on? "As long as you want, 20 years. . . . Eventually you'd like to come out. There's no real time limit to how long you do it. It really is a function of how long you continue in business, and how long it will take you to work it out." NEW

EPA: Up to $450,000 in Fines and Engine Fixes For Michigan Misfueler

The federal crackdown on misfueling rolls on.

Mid States Petroleum has agreed to pay $100,000 in fines and replace up to 3,000 damaged catalytic converters free of charge for illegally selling 700,000 gallons of leaded gasoline as unleaded fuel at service stations in Michigan.

The Environmental Protection Agency, which conducted the investigation of the illegal sales, said Mid States has also agreed to adopt stringent quality controls and endow the University of Michigan and the Detroit College of Law with donations promoting research and enforcement of the Clean Air Act.

Mid States is a Union Oil distributor. EPA investigators found that a Mid States subsidiary, Capital City Oil Co., delivered leaded gasoline into unleaded storage tanks at nine Michigan service stations owned and operated by the parent firm between Dec. 17, 1982, and April 1, 1983. The stations displayed the Mid States or Union 76 trade names.

EPA officials obtained an administrative search warrant to sift through Capitol City fuel purchase and delivery records before issuing its findings. Joseph A. Cannon, EPA assistant administrator for air and radiation, said, "While I applaud the efforts of a company to admit responsibility and repair the damages it has caused, it is disturbing to find one of the nation's largest refiners (Union) selling leaded gasoline as unleaded fuel over large parts of a state for months without adequate oversight or testing to protect the public."

Mid States has begun testing catalytic converters on cars and trucks at the nine service stations where violations occurred. The company has agreed to spend up to $350,000 replacing damaged converters where evidence of lead is detected in the exhaust system. NEW

Most Majors Market Some Alcohol Fuel, Says Research Firm

An overwhelming majority of major and semi-major oil companies market an alcohol fuel blend and, at least four additional companies have studied the prospects, according to an ongoing study by Information Resources, Inc., a Washington D.C.-based research consulting firm.

Fifteen out of the 23 companies profiled by Information Resources between last November and mid-April market an alcohol fuel blend. Union, Gulf, Mobil, Sohio, Kerr-McGee, Marathon, Shell and Exxon are the only non-blenders. (IRI said Sun Refining and Marketing was test-marketing Oxinol, a methanol blend, but the company has since discontinued the program because of anti-methanol publicity.)

Some of the most active blenders include Arco, Ashland, Southland Corp., Total Petroleum, MAPCO Petroleum and Rock Island Fuel. Alcohol blend sales account for about 55% of MAPCO's total gasoline sales, 35% to 40% of Rock Island's, 22% of Total's, 20% of Arco's, 14% of Ashland's and 10% of Southland's.

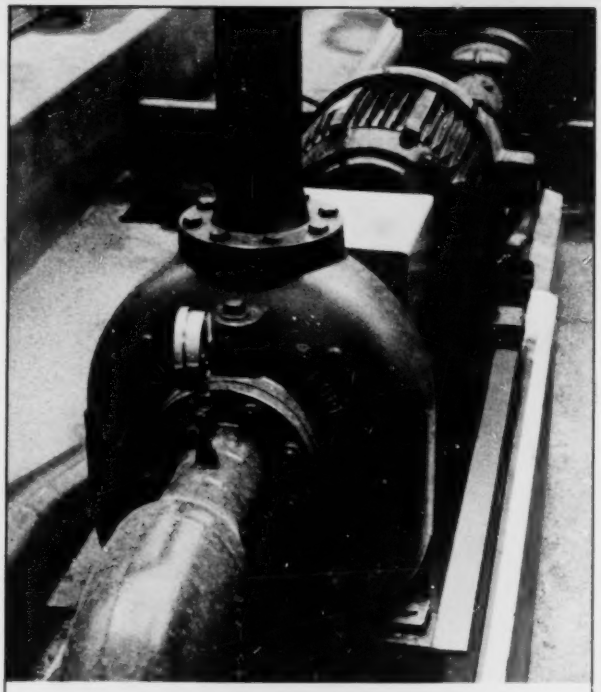
The study suggests oil companies are still quite hesitant to market methanol blends. Only Arco, Sun, Southland and MAPCO are marketing oxinol, a methanol blend developed by Arco.

Six of the companies own all or part of either an ethanol or methanol production facility.

Blends as Percentage of Gasoline Sales

Amoco	4%
Ashland	14%
Arco	20%
Chevron	1.1%
Conoco	NA
Getty	Less than 1%
Koch	NA
MAPCO	50%-55%
Phillips	Less than 5%
Rock Island	35%-40%
Southland	10%
Sun	Less than 1%
Texaco	5%
Total Petr'm	22%

Source: Information Resources, Inc., Washington, D.C.



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The stores are a pitch for the growing number of do-it-yourself car owners, as well as professional dealers and mechanics.

"It's certainly a high-growth industry," says Action Auto's president Dick Sabo, an 18-million-gal.-a-year Sun jobber. "We're catering to a middle to lower-middle income group that needs to fix their own cars."

The primarily small-town stores each average about 85,000 gal./month with $50,000 monthly on inside store sales. Action Auto stores dramatically discount fast-moving items such as anti-freeze and spark plugs, with higher margins on auto repair parts such as filters, clutches and brakes. Store items draw an average 30% gross profit margin.

Sabo says Action Auto's warehouse and distribution operations allow the firm to discount parts by buying 80% of the chain's parts inventory direct from manufacturers. The typical store stocks 12,000 different auto and truck parts, including high-performance oils, chemicals, accessories and hard parts.

Sabo estimates it would take $200,000 to convert an old service station into an Action Auto store, including inventory, fixtures, signage and land. A ground-up version would run about $300,000, he says. N:Y

Tuneup Market Shows Increases, But, Service Station Share Weakens

Although the tuneup market has rebounded since 1980, there are still millions of cars on the road today that are overdue for a tuneup, according to Champion Spark Plug's 1983 Consumer Maintenance Survey.

Motorists who *are* having their cars tuned are turning away from service stations and new-car dealers and tuning up at garages, repair shops or in their own backyards.

In 1983, 66.3% of the cars in the survey were tuned up, over a low of 62.9% in 1980. The study says these figures are low compared to earlier years. In 1970, for example, an estimated 79.4% of the cars were tuned; in 1973, 78.6%; and in 1978, 70.8%. Champion blames the relatively low number of tuned cars on poor economic conditions and motorist apathy toward auto service.

"We feel the trend could be reversed," says a Champion spokesman, "but we need to communicate more with the car owner the benefits of having the car tuned periodically. Fuel economy can be improved, for example."

The 1,000-family study suggests the number of do-it-yourselfers is on the rise. The backyard tuneup business has grown more than any other segment, jumping from 29.5% in 1973 to 35.4% of the motorists surveyed in 1983. It isn't difficult to see why: The average cost of a do-it-yourself tuneup in 1983 was $24.70, compared to $68.53 at service stations, $79.06 at repair shops, $82.95 at car dealers and $71.18 at ignition specialty shops. And, the study shows the do-it-yourselfers were more satisfied with the tuneup, than were motorists who relied on repair facilities.

It is the do-it-yourself and self-serve gasoline trend which Champion feels has contributed to the shrinking market share retained by service station tuneups. Last year, the new-car dealer and service station shares of the tuneup market each were down 6.5 percentage points from 1973. The service station market dropped from 19.4% 10 years previous to 12.9% in 1983, and the new-car dealer share, from 26.3% to 19.8% in 1983. Garage and repair shop tuneups, however, seized 24.2% of the market, up from 20.6% in 1973. The market for mass merchandisers and specialty shops grew to 7.7%, from 4.2% since 1973. N:Y

Where Motorists Received Tuneups . . .

	service station	new-car dealer	garage/ repair shop	do-it-yourself	other
1983	12.9%	19.8%	24.2%	35.4%	7.7%
1978	16.5	23.2	22.0	33.4	4.9
1973	19.4	26.3	20.6	29.5	4.2